AOD-208

AGRICULTURAL OUTLOOK DIGEST

Approved by the Outlook and Situation Board, March 25, 1975

Crop Recovery Forecast

With halfway decent weather, grain and soybean production will rise sharply in 1975 and stock levels will rebound dramatically from the low levels of the 1974/75 crop season. This outcome would benefit the world food supply picture and aid domestic livestock production. But it might also extend into 1975/76 the recent downtrend in crop prices.

A March 1 planting intentions survey by USDA found farmers contemplating somewhat more modest increases in soybeans, sorghum, and barley than they indicated in January. Similarly, farmers are now thinking about planting 3 percent less corn than last season, more of a cutback than previously reported.

Prospective 1975 plantings indicated March 1, 1975

	Planted 1974	Indicated 1975
	Mil. acres	*Mil. acres*
Corn	77.7	75.2
Sorghum	17.7	18.9
Barley	9.1	10.2
Oats	18.1	18.2
Feed grains	122.7[1]	122.5
Wheat	71.2	73.2
Soybeans	53.6	56.6
Cotton	14.0	10.0
Rice	2.6	2.6
Flaxseed	1.7	1.8
Rye	3.2	3.2
Sugarbeets	1.3	1.5
Total	270.2	271.4

[1] Does not add because of rounding.

Despite this trimming operation, a match of intended acreage of major crops with projected yields shows big potential gains for production of wheat, feed grains, soybeans, and tobacco. Rice output may be close to last year. The big exception is cotton. Planted cotton acreage rose from 12.5 million acres in 1973 to 14 million in 1974. But farmers, disgruntled with low cotton prices and high production costs, are planning to plant only 10 million acres this spring.

Wheat producers are looking for a 3-percent boost in total wheat acres this season. This would include more wheat planted last winter and more durum wheat, but less spring wheats other than durum. With any recovery in yields, output might rise 200-400 million bushels, allowing for increases in domestic use, exports, and carryover.

While the rice allotment for 1975 was dropped from 2.1 million acres to 1.8 million, prospective plantings of 2.56 million acres are only a shade below last year. Given the larger carryover expected this July and normal yields for the 1975 crop, total rice supplies could rise to a range of 126-133 million hundredweight. With weaker export demand currently foreseen during 1975/76, ending stocks could double during the season to an ending level of 24-27 million hundredweight.

Feed grain acreage may match the 122.5 million acres planted last year. While prospective corn acreage is down, 7 percent more sorghum and 12 percent more barley may be planted. With normal planting, growing, and harvesting seasons, this year's feed grain crop could total in the area of 205 to 229 million tons, up sharply from the 165 million tons harvested in 1974.

If production falls within the indicated range and livestock-feed price ratios favor feeding, domestic demand in 1975/76 should show a substantial volume increase. Foreign demand is expected to continue strong in 1975/76 since world stocks remain relatively low and livestock production continues strong in most importing countries.

The feed grain carryover, projected at a paltry 14.4 million tons this fall, could build up to 25-30 million tons by the fall of 1976.

Farmers may plant 3 million more acres to soybeans this season, despite sluggish demand for soybean products and recent price declines. If yields recover to a typical 26-28 bushels per acre from last year's 23.5 bushels, production could rise 200-300 million bushels over last season's 1.2 billion bushels. The added supplies would allow for moderate increases in domestic use, exports, and carryout stocks for 1975/76.

Next season could see a partial recovery in demand for cotton from the extremely low usage of 1974/75 of only 9.3 million bales. Total usage next season of 10-11 million bales would reflect some recovery in both domestic mill use and cotton exports. **See table of projected crop production on page 8.**

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Farm Economy

No Farm Credit Crunch, But Lenders Are Particular

The effects of recession and inflation are reaching rural areas and rural financial institutions. At the same time, farmer borrowers are being hit by unfavorable livestock returns and falling commodity prices. Concern that these problems are causing a credit crunch for agricultural borrowers in 1975 prompted Economic Research Service economists Phillip T. Allen, J. Bruce Hottel, and Robert D. Reinsel to informally survey experts in farm finance and production. Here is what they found:

The Money is There

It appears there is no shortage of loan funds for operating purposes. Yet some livestock and cotton farmers are having a tough time financing their operating expenses, either because of previous equity losses or because of a gloomy net income projection.

Lenders are trying to protect against possible loss situations in such cases by requiring borrowers to hold larger equity positions in feed and livestock or to convert existing short-term to long-term debt.

Compared with the situation we outlined last December in the ERS *Agricultural Finance Outlook* report, at least two important changes have occurred. The agricultural price and income outlook has worsened, and short-term interest rates in the central money markets have declined substantially.

Net income prospects for 1975 are now several billion dollars below expectations last December. Since prices of farm family living items have continued to rise, the "real purchasing power" of this income is down relative to 1972-74.

A small increase in foreclosures may have occurred but to date few operators are in that serious a financial position. Many livestock and feeder cattle producers are in a much weaker position but they should be able to recover with improving feed-livestock price ratios.

Short-term interest rates have eased a great deal. The rate on 3-month Treasury Bills in late January fell below 6 percent for the first time since February 1973; it is now 2-3 percentage points below last fall's level. These rate changes will gradually work their way into somewhat lower rates on nonreal estate farm loans. Rates on long-term loans may not change as much. Policy loans on life insurance are declining, freeing funds for other uses, including loans for farm mortgages.

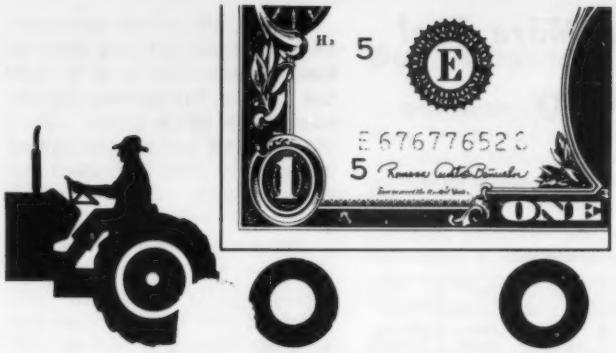
Livestock Lending Is Off

The volume of lending for livestock production has declined since early 1974. Prices of feeder livestock have decreased substantially, much smaller numbers of cattle are being fed, and lenders have become more selective in loan approvals. However, many cow-calf producers still hold last year's calf crop and will need additional financing this year.

A major lending bank for cattle feeding in Texas indicated a 40-50 percent decrease in loans. Similar decreases were noted by banks in Oklahoma and Colorado. In cases where producers have taken substantial losses and current earnings will not liquidate debt, other available assets are being sold or debts are being refinanced into farm mortgage loans. Federal land bank data show a larger part of the banks' mortgage loans are used for refinancing of nonreal estate indebtedness.

At the same time, equity capital provided by nonfarm custom feeders has been withdrawn from the sector. Lenders are requiring larger equity margins in feed and cattle placed on feed to protect themselves against possible loss situations.

While many producers of both feeder and fat cattle are faced with possible income losses, few have been forced to liquidate their holdings under foreclosure. In general, the equity position of most cow-calf operators is still adqequate to meet debt obligations. Equity has been



aided by relatively favorable earnings in prior years. However, the magnitude of the present income problem appears to be substantial.

With respect to 1975, declines in grain prices have improved the outlook for cattle feeding. However, margins for feeders remain very slim and only the most efficient operators are likely to be able to turn a profit this year.

Cotton Difficulties

Cotton prices are more than one-third below a year ago. The problem is compounded because many farmers did not contract at favorable higher prices and still have not sold their 1974 crop. Some financial institutions have been encouraging farmers to sell their previous crops to apply on past production debt, but most lenders are reluctant to force their borrowers to sell on what they consider is a depressed market. This means that some lenders are carrying over more loans than normal from the previous year, and at the same time must meet the demand for loans for financing the higher production costs in 1975.

Although the general indication is that lenders are working with regular borrowers caught with depressed earnings and lower repayment capacities, an increased number of farmers have been asked to seek help from the Farmer's Home Administration (FmHA) or other sources.

Loan repayment difficulties will likely increase among cotton farmers in view of the unfavorable outlook for net earnings. The U.S. loan rate for cotton in 1975 based on 1-inch middling is 34.27 cents per pound of lint. Variable costs to produce cotton are estimated for 1975 to range from close to 28 cents per pound in the Mississippi Delta and Texas High Plains to near 32 cents in the San Joaquin Valley of California. If prices hold at current levels ranging from 35-38 cents per pound of lint, producers will be hard pressed to cover their depreciation and other fixed costs of production.

Loans for the Little Guy

The FmHA provides loans to farmers who are not adequately served by other sources. Their loans are a small part of the nonreal estate total—only about 2 percent—but probably are the major source for substantial numbers of the small farmers.

FmHA loan applications increased considerably in the last half of 1974 compared with July-December 1973. However, most of the increase was for rural housing loans. There was only a small increase in applications for farm operating loans. The rise in FmHA loan applications did not appear to indicate a general shortage of loan funds for farming needs in 1975. Instead, it seemed to represent some increase in the number of operators whose income and asset positions had worsened and who were unable to obtain credit from banks and PCA's.

The three major sources of operating funds for agriculture are commercial banks, the Production Credit Associations (PCA's), and individuals and others (primarily merchants and dealers). With a few exceptions, banks appear to have adequate funds for farm lending this spring. Their deposits have increased relative to their loans in recent months, and the declines in short-term rates in the major money markets have reduced the pressures on rural banks to curtail their farm lending in favor of higher returns elsewhere. In general, bankers in 1975 expect an increase in general operating loans and a decrease in livestock loans.

Data from the Federal Reserve Board of Governors indicated there has been a definite easing in the availability of funds in rural areas since the rather tight situation in the fall of 1974. Even in areas where livestock and cotton are major enterprises, bankers indicate that money is available to customers who qualify in terms of usual equity and repayment requirements. Bankers did stress, however, that in many areas farmers are being discouraged from making postponable capital investments, and are advised to watch their operating expenditures carefully. Fertilizer purchases may decline in some areas, in an effort to curtail cash outlays.

The PCA's draw their funds from the national money markets, and hence their available loan supplies are unaffected by local conditions. PCA loans continued to expand rapidly during 1974 nationwide, but with important regional differences. Outstanding PCA loans at the end of the year were 22 percent greater than a year earlier, compared with an estimated 10 percent for commercial banks.

It appears that PCA loans have continued to be made in large amounts except in areas where livestock activities were important. No drying up of PCA operating loans funds seems to be occurring. Merchant and dealer lending apparently have continued to increase less than other sources in recent months, as in 1973 and 1974.

Farmers May Burn No More Fuel in 1985 Than Today

From a speech by Economic Research Economist Austin Fox

Projected crop yields and fuel used per acre in 1985

Crop	Unit	Yield per acre		Fuel per acre		Projected fuel use 1985
		Average 1971-72	Projected 1985	1973	Projected 1985	
				Gallons	*Gallons*	*Million gallons*
Corn	bu.	86	116	23.0	25.4	1,452
Sorghum	do.	55	68	13.3	12.7	213
Wheat	do.	33	38	11.1	10.7	498
Oats	do.	52	61	[	]	[
Barley	do.	44	55			
Rye	do.	27	30	12.7	12.6	379
Flaxseed	do.	11	13			
Rice	do.	105	124	]	]	]
Soybeans	do.	27	32	22.8	20.9	1,370
Peanuts	cwt.	21	27	29.3	28.0	49
Cotton	do.	4.6	5.1	26.7	25.4	265
Tobacco	do.	21	26	386.0	371.0	304
Alfalfa hay	ton	2.1	2.2	13.4	12.8	365
Other hay	---	---	---	3.5	3.3	115
Pasture, selected	---	---	---	3.1	2.9	148
Silage	ton	--	13	19.6	20.1	275
Irish potatoes	cwt.	232	264	57.8	56.0	76
Other vegetables	do.	---	156	36.0	33.4	125
Citrus fruits	do.	---	240	[	]	[
Other fruits & nuts	do.	---	84	51.8	50.9	189
Sugarcane	ton	30	32			
Sugarbeets	do.	20	20	44.1	42.4	365
Dry beans	cwt.	12	15			
Other crops	---	---	---	]	]	]
All crops	---	---	---	16.8	16.5	6,188

Projected use of fuel for livestock production, 1985

Item	1973	1985	
	Fuel per head	Fuel per head	Total
	Gallons	*Gallons*	*Mil. gallons*
Cows and Cattle:			
Milk cows	38.07	36.59	345
Other cows	8.30	7.98	384
Other cattle	7.44	7.15	602
Other livestock and poultry:			
Hogs	2.99	2.87	296
Sheep and lambs	2.11	2.03	12
Broilers	.03	.03	106
Chickens	.17	.16	56
Turkeys	.18	.17	29
Total livestock			1,830

Farmers will produce much more 10 years hence, but they may not burn any more fuel to do it. Total fuel used in farming may approximate the 8 billion gallons used in 1973. One big reason is the continuing switch to diesel fuel, which does as much work with 3 gallons as gasoline does with 4.

Another is continuing improvement in crop yields. Because of improved yields, farmers may need to harvest only 1 percent more acres in 1985 than they did in 1973 (including pasture and silage) to get the added crop and livestock output that markets are projected to require.

Determining how much fuel farmers will burn in the next decade involves analyzing many factors that affect fuel use. The variety of factors is a reminder of how tough it can be to achieve the goal of conserving energy.

For example, it takes fuel as well as water to irrigate. Yet sometimes, because of higher yields per acre, it takes less fuel to produce a given amount of crops on irrigated land than on dryland. It looks like irrigated acreage of all crops may increase slightly by 1985, and add 2 percent to the amount of fuel used per acre of cotton, corn, potatoes, and fruit.

Crop drying is on the rise. Compared with 40 percent of the corn dried in 1969, 80 percent may be dried by the end of this decade. This trend will add 8 gallons to the average amount of fuel used per acre of corn in 1985. Increased soybean and sorghum drying will add more moderately to fuel requirements for growing these crops.

Another fuel-boosting factor is the shift to more complete harvesting equipment. Mechanization of tobacco, fruits, and vegetables seems destined to increase.

The energy crisis has made reduced tillage practices more important. By 1985, it's estimated that wider use of minimum tillage systems will cut 3 gallons off pre-harvest fuel requirements for corn. An equal reduction may take place for cotton

on the 40 percent of the cotton acres in the South and East where reduced tillage will be used.

As the table below indicates, the number of gallons used per acre varies widely by crop. While pasture and hay use only about 3½ gallons per acre, tobacco, which frequently requires extensive curing, burns up nearly 400 gallons. On the average, however, it now takes 17 gallons of fuel to produce 1 acre of crops.

And that's how much it may take in 10 years, as gallons per acre rise for some crops and fall for others, netting out to little change from today's average fuel rate for all crop production.

It's important to consider the role of livestock in farm fuel consumption. Directly, livestoct raising accounts for about 1.7 billion gallons of fuel. This figure may be a little higher come 1985 as sharp gains in livestock production offset more efficient use of fuel per animal raised.

Indirectly, however, livestock production requires much more fuel than these figures imply. For example, most of the largest fuel-consuming crop, corn, and much of the second-ranking fuel burner, soybeans, are fed to livestock. The third-ranking fuel consumer is hay (alfalfa and other types), and the fourth is the "other cattle" category, which includes range cattle and cattle feeding.

Projected livestock output

Item	Unit	Average 1970-72	Projected 1985
		Billion	
Livestock:[1]			
Beef and Veal ...	Lb.	22.5	30.1
Pork	do.	14.0	15.7
Lamb and mutton .	do.	.6	.2
Chicken ..	do.	8.8	12.0
Turkey ..	do.	1.8	2.6
Eggs	Doz.	5.8	6.4
Milk	Cwt.	1.2	1.2

[1] Beef, veal, pork, lamb and mutton are carcass weight. Chicken and turkey are ready-to-cook weight.

Source: Economic Research Service projections.

*Bulk Buying Can Ease Fuel Costs**

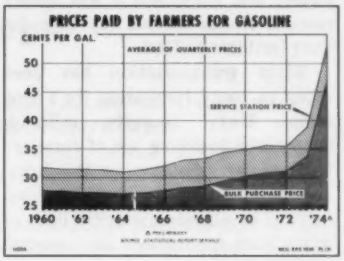
With higher costs for gasoline, more farmers could save by setting up a storage tank and buying in bulk instead of lining up at the service station. Farmers who buy in bulk are the only ones who can be assured their share of available gasoline supplies under the current regulations that allocate farmers 100 percent of gasoline needs. But evidence suggests that many farmers still gas up at the pump.

Farmers use about 8 billion gallons of gasoline, diesel fuel, and LPG and currently spend about 4 percent of their production outlays for fuel. Gasoline is the major fuel used by farmers, who buy about 4 billion gallons of it each year. Thus, any savings in the gas bill is a large potential savings for agriculture.

The 1971 farm expenditures survey indicated that nearly half of all gasoline used by farmers is purchased at the service station pump. And the 1971 survey further indicates that over half the gas used on farms with sales of less than $10,000 is purchased at service stations.

This story varies from region to region. Over two-thirds of the gasoline in the Appalachian States, Southeast, Delta States, and Southern Plains is bought from stations, while in the Corn Belt, where the largest amount of gasoline is used, only a third is purchased from stations.

During the 1960's, when the price of gasoline was fairly stable, farmers could figure on saving 4 cents a gallon off pump prices by purchasing in bulk. But in the 1970's, prices soared faster at the gas station than for bulk buyers. In 1973, bulk gas was about 5 cents a gallon less, and today it is about 6 cents a gallon cheaper. Using 1974 as an example, if farmers had purchased all gasoline at bulk prices, they would have come out ahead by $94 million. Naturally, some farmers don't use enough gas to justify buying a tank and starting bulk purchasing, but the savings can run into several hundred dollars per year for farmers whose purchases are large enough to justify making the move.



The table below indicates the number of farmers buying direct from service stations in 1971 in each region, and the savings they might have realized at 1974 prices, based on the average amount of gasoline purchased per farm.

Region	Farmers purchasing at the station only[1]	Savings per farm if gas had been purchased in bulk[2]
	Thousands	*Dollars*
Northeast	63	75
Lake States ...	38	210
Corn Belt	90	201
Northern Plains	16	523
Appalachian ..	327	49
Southeast	153	50
Delta States ...	134	61
Southern Plains	167	87
Mountain	28	130
Pacific	41	126

[1] Based on unpublished data from a 1971 SRS farm production expenditures survey. [2] Excludes cost of purchasing bulk tank.

An informal check showed that tanks range in price from $200 for a small portable model to several thousand dollars for a large tank installed underground. Given the current economic picture, there is plenty of steel available for manufacturing bulk tanks.

*By Gwendolyn Gales, Economic Research Service Economist

The Train Doesn't Pass Here Any More

Many farmers and rural residents may soon hear the whistle of their local train for the last time. To some this will signal a blow to their livelihood or to the viability of their hometown. To others it will merely mean a change in the way they get their fertilizer or feed.

Train transportation has been dying in many rural areas for a long time. Until recently, railroads adapted to declining use of rural rail trackage by applying to the Interstate Commerce Commission for permission to abandon specific lines or spurs. Such applications have reached a crescendo in the last few years.

Rural rail service has also been threatened by the financial deterioration of the railroads themselves, especially east of the Mississippi. In the past year, the Penn-Central system has been teetering on the brink of collapse, and last month the Rock Island Railroad filed for bankruptcy.

New Act

The Regional Rail Reorganization Act was passed in 1973 in the hopes that a restructuring of railroads in the East would give the system a fighting chance for survival. Part of the prescription set forth in the Act was abandonment of little used trackage, an action which affects many rural areas.

USDA's Economic Research Service and Agricultural Marketing Service, along with the Federal Railroad Administration, studied the economic effect on rural areas of rail abandonments called for by the Act at the request of the Senate Committee on Agriculture and Forestry.

Studies were made of 100 rail stations on unprofitable lines in 25 zones in New England, the Middle Atlantic States, and the Midwest, and of two recent abandonments. Comparisons were made between a number of farming areas that had already lost rail service and nearby farming areas and rail users retaining rail service.

The report found that overall, farmers and consumers are not likely to suffer. However, some farmers will have to change their way of doing things because of new price relationships. And some farmers also may face increased transportation costs for both their products and their inputs.

Feed firms in grain and soybean producing areas were also judged to be little affected, since little or no feed was shipped by rail in the areas studied. Many midwestern grain elevators also would be little affected because they quite often move their grain as much as 90 miles to main line railroads where more suitable types of railway cars and grading facilities are available, or to water transportation.

Possible Impact

Fertilizer distributors in the Midwest and feed dealers in the Northwest appear to be potentially the most affected agribusiness firms. In the areas where rail traffic had been abandoned, most fertilizer distributors reported increased costs and disruptions of operations. However, it was found that few firms closed and none closed specifically because they lost rail service.

It is apparent that the affects of rail abandonment on farmers and agribusiness firms are tough to generalize because marketing and transportation patterns and the availability of alternative transportation vary widely from location to location.

Hearings were held recently to find out what the agricultural community thinks about abandonment. The principal problems visualized by representatives of farming and agribusiness were the added cost of trucking, potential loss of income by farmers, and threats to the viability of some farm trading centers. Other possible consequences of rail abandonment were thought to be highway deficiencies and difficulties in finding an adequate supply of trucks.

The Regional Rail Reorganization Act envisioned that the communities willing to pay operating subsidies would be among those permitted to bid for the lines otherwise abandoned. However, the study indicated that those rail users surveyed did not want to become heavily involved in financing rail service.

Partial cure for ailing railroads: Abandon some Rural Lines

Probable impact: Overall, farmers and consumers are not likely to suffer. But some farmers will pay more for inputs and transportation

Commodities

Regional Shifts in Plantings

Farmers on March 1 reported intentions of planting nearly a million more acres this season to seven major crops. This includes several million more acres of both wheat and soybeans, offsetting a slight drop for feed grains and 4 million fewer cotton acres.

By region, acreage dropped in the North Central States and in the Great Plains, but rose noticeably in the Southern Plains, Delta States, and Southeast. In these three regions, increased plantings of soybeans, feed grains, and wheat are more than enough to offset expected reductions in cotton plantings.

In the North Central region, planted acreage of the seven crops may decline nearly a million acres as reductions in planted acreages of corn, spring wheat other than durum, and soybeans more than offset increases in other crops. A drop of nearly a half-million acres in the Great Plains results from less planted acreage for corn, grain sorghums, and spring wheat other than durum.

Looking at acreage shifts of the seven crops, the reduction in expected corn acreage is concentrated in the North Central States and Great Plains. In place of corn, wheat, barley, and oat plantings are rising in these regions.

Soybean acreage is up sharply in all regions but the North Central States, with the sharpest gain in the Delta. Cotton acreage is off everywhere, but mostly in the Delta.

The rise of over a million acres in prospective grain sorghum plantings about matches the rise occurring in the Southern Plains.

Winter wheat acreage was up everywhere this season. The biggest increase was in the Southern Plains. Durum wheat plantings may be up, while other spring wheat acreage declines.

Beef Grades

Beef grades are changing with the times. Effective April 14, USDA will begin implementing new beef grading standards which could result in some long-range and immediate benefits to cattlemen plus leaner, less costly beef for consumers.

There are eight quality grades, with Prime, Choice, and Good being the most familiar. Most fed beef is **Continued on page 8.**

How 1975 plantings may differ from last season, by regions

	Change from actual 1974 plantings indicated on March 1								
	North-east	South-east	Delta	South-ern Plains	North Central	Great Plains	South-west	North-west	United States
	1,000 acres	*1,000 acres*	*1,000 acres*	*1,000 acres*	*1,000 acres*	*1,000 acres*	*1,000 acres*	*1,000 acres*	*1,000 acres*
Corn	61	106	10	191	-1,560	-1,262	19	-21	-2,456
Grain sorghum	--	-2	84	1,100	69	-265	136	--	1,122
Barley	2	-20	--	-40	359	678	79	10	1,067
Oats	-21	-15	-14	-535	320	307	7	40	89
Feed grains	42	69	80	716	-813	-542	241	29	-178
Winter wheat	-3	28	209	1,250	594	515	279	261	3,133
Durum wheat	--	--	--	--	44	145	1	30	220
Other spring wheat	--	--	--	--	-130	-757	1	-418	-1,304
Other wheat	-3	28	209	1,250	508	-97	281	-127	2,049
Upland cotton	--	-925	-1,345	-1,150	-170	--	-437	--	-4,013
Soybeans	30	1,195	1,970	150	-490	197	--	--	3,052
7 major crops	69	367	914	966	-965	-442	85	-98	910

Projected 1975/76 crop supplies and utilization[1]

Item	Wheat	Rice	Feed grains	Corn	Soybeans	Cotton
	Mil. bu.	*Mil. cwt.*	*Mil. s. ton*	*Mil. bu.*	*Mil. bu.*	*Mil. bale*
Supply:						
Old crop stocks	250- 250	13.4 13.4	14.4- 14.4	360- 360	135- 135	6.3
Output and imports	2,026-2,226	113.0-120.0	205.2-229.6	5,747-6,400	1,450-1,550	([3])
Total	2,276-2,476	126.4-133.4	219.6-244.0	6,107-6,760	1,585-1,685	---
Utilization:						
Domestic	791- 816	38.3- 38.6	155.9-167.8	4,350-4,600	[2]830- 880	6.0- 6.5
Exports	1,050-1,200	61.2- 70.4	38.4- 46.0	1,100-1,300	485- 515	3.8- 4.3
Total	1,841-2,016	99.5-109.0	194.3-213.8	5,450-5,900	1,315-1,395	9.8-10.8
Ending stocks	435- 460	26.9- 24.4	25.3- 30.2	657- 860	270- 290	---

[1] 1975/76 begins July 1 for wheat, August 1 for rice and cotton, September 1 for soybeans, and October 1 for corn. [2] Includes crushing, seed, feed, and residual uses. [3] USDA is prohibited from estimating production prior to release of the August Crop Production Report.

examined for grade, although it is not always grade marked. Both Government and private agencies report prices according to USDA grade, and most livestock and meat transactions involve USDA grades in price negotiations.

Present quality standards combine palatability characteristics with the animal's conformation to arrive at a final grade. However, since conformation has no effect on beef's palatability, including it as a grading factor increases the variability in quality within each grade. Marbling and maturity are the factors used in the standards to identify differences in palatability. Yield grading, which previously could be used independently or in conjunction with the quality grades, measures the percentage of trimmed retail cuts a carcass will produce.

In general, the revised standards will accomplish four things: (1) qualify slightly leaner beef for the Prime and Choice grades, (2) establish a more restrictive Good Grade, (3) increase uniformity in eating characteristics for each grade, and (4) require that all beef graded be identified for both quality and yield.

The costs of producing, shipping, and trimming excess fat may be reduced through the increased production of cattle with the ability to produce thickly muscled carcasses having high quality lean with a minimum of waste fat. Since the new standards require that all graded carcasses be identified for both quality and yield grade, more equitable trading to reflect differences in quality and yield could result, thus encouraging the production of meatier cattle.

The range of quality characteristics within the Good grade has been reduced overall by about 50 percent. Consumers who live in areas where Good beef is advertised should find it to be highly uniform and consistent in palatability. Consumer and retailer demand for grade identification of this quality of beef—together with the fact that it can be produced at a lower cost than the Prime and Choice grades—could bring about an increase in its retail availability.

Cattlemen should also benefit from the redesigned grades. Leaner cattle mean less feeding of grain and feeding of relatively more roughage. This could mean greater use of pastures, longer periods of "backgrounding" cattle before going to feedlots, or less concentrated feedlot rations. The new grading standards, however, are not likely to cause an increase in the production of straight grass-fed beef.

Tobacco

Tobacco growers face a bright future. U.S. smokers burned up a record 600 billion cigarettes in 1974, 2 percent more than in previous years. Exports of U.S.-grown tobacco and products gained 23 percent in value in 1974 to set a record of almost $1.2 billion.

Preference for cigarettes is increasing. Smokers in 1974 accentuated their preference for cigarettes over other tobacco products by smoking a near-record 208 packs per adult. The slump in smoking tobacco, snuff, and both small and large cigars further emphasizes this preference. Sales of small cigars particularly have declined since the removal of broadcast advertising.

One trend bucker, however, has been the higher priced large cigar. Sales have been showing a sharp upswing from recent years. Chewing tobacco sales also have gained, with loose leaf more than making up for plug's decline. Users in 1974 chewed their way to a 20-year high, up 5 percent over 1973.

Big Plans for 1975

As can be seen by the higher March 1 planting intentions, tobacco growers see the need for larger supplies. Last year's crop was larger, but smaller carryover limited the supply of domestic leaf tobacco for 1974/75 to less than 5 billion pounds—2 percent below the previous year. Prospects are for above-average export levels and record cigarette sales, which indicate that the outlook for the end of this marketing year is for another drop in carryover.

Rice

The pressure cooker has been put on the front burner and is steaming up a mixed outlook for this year's rice grower. Rice growers appear to be still confident, however, with this March's 1-percent drop in planting intentions.

The 1974/75 rice marketing year has been shaped by a record crop, prospects for record demand, strong farm prices, although down from a year ago, and high retail prices.

The 1974 crop totaled a record 114.1 million hundredweight, with both acreage and yields well above the 1973 levels. Carryin stocks were also larger, which pushed total supplies to a record 121.9 million hundredweight, 10 percent above the old record set in 1968/69.

Rice prices for farmers are way down from 1973/74 levels. A year ago, producers were in the heady position of receiving over $17.00 per hundredweight for rice. This February's average price was $10.80 per hundredweight.

Demand for this marketing year is projected to be a record-shattering 108.5 million hundredweight, with most of the growth coming in exports. Domestic use may total around 37 million hundredweight, somewhat above last year's level. Food use may pick up a bit as retail prices ease from last summer's record high level, but brewers' use of rice is down.

Exports are estimated to be a record 71.2 million hundredweight, 25 percent above the record set back in 1971/72. Partially responsible for the increase in exports is a high level of P.L.-480 shipments, currently forecast at around 25 million hundredweight, compared with only 18 million last year. Commercial export demand for U.S. rice has been surprisingly strong.

If total rice disappearance moves along favorably and hits the projected 108 million hundredweight for 1974/75, the carryover this summer is expected to total around 13 million hundredweight, nearly double a year ago.

Rice Program Lineup

The 1975 rice program reduced the allotment level 14 percent to a little more than 1.8 million acres and increased the price support loan to a minimum of $8.06 per hundredweight, up 52 cents from last year. Some of the other important provisions of the program were (1) no marketing quotas and (2) producers must comply with all acreage allotments on all farms in which they have an interest in order to be eligible for loans.

The kicker to the rice program this year is that if a rice grower exceeds his Government allotment, he loses his loan eligibility. However, even in the face of this all-or-nothing situation, March planting intentions show that a large number of farmers are going for broke by exceeding their allotment.

Fruit

Fruit should be in better supply this spring than last. The 1974/75 citrus crop will be record large, more storage supplies of major deciduous fruits are on hand than this time last year, and stocks of most processed noncitrus products appear adequate to meet market needs.

Supplies are pressuring prices. February grower prices were below February 1974 levels for most fresh fruits being marketed. Grower prices for most fresh fruit will advance seasonally during the second quarter, and the index of prices received by growers for fresh and processed fruit is expected to average near last year's level.

Meanwhile, the BLS retail price index for fresh fruit for the first half of 1975 will be moderately above the comparable 1974 period.

Despite subfreezing temperatures in California and Texas, the U.S. citrus crop will be a record 14.4 million tons, 8 percent larger than a year ago. The freeze damaged the fruit quality but it can be used in processing.

More oranges should be harvested than ever before, about 10.2 million tons. Grower prices for fresh oranges have been depressed by large supplies, and may continue dropping during spring as the Valencia harvest gets underway.

This season's grapefruit output will lag about a tenth behind the last 2 years. Grower prices are higher than last year's and will continue to advance with dwindling supplies and resumption of exports to Japan.

Lemon production will reach new highs, nearly 1½ times last year's small harvest. More lemons are being processed from the larger crop. Grower returns for fresh and processed lemons are down sharply from last year and are likely to remain low for the rest of the season.

Noncitrus Fruit

Noncitrus fruit production in 1974 was slightly above 1973 output overall, but varied widely by type of fruit. Among the crops showing declines were apricots, pears, sweet cherries, and dried prunes. Apples, nectarines, plums, California clingstone peaches, tart cherries, and cranberries were gainers. With higher production, prices for most fruits averaged lower.

Processed Fruit

More citrus will be processed than last year as a result of the record orange and lemon crops and the diversion of freeze-damaged fruit to processing in California. Less grapefruit will move into processing channels, but total supply of processed products should exceed last year's, due to larger carryins. Florida growers will be getting much less for processing oranges and grapefruit than last year. Grower returns in Texas have been higher, reflecting much smaller crops. Returns for processing lemons are down sharply in California and Arizona.

Foreign Focus

International Monetary and Economic Developments

Two recent developments in the international arena could affect U.S. farm exports. The U.S. dollar has declined on international money markets and economic activity has either slowed down or declined in a number of our major markets overseas.

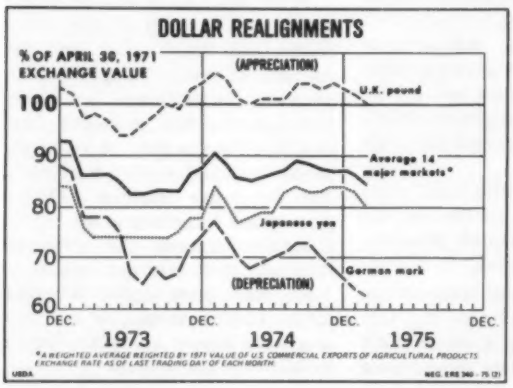
Dollar decline

From late August 1974 and through February 1975, the dollar declined about 5 percent with regard to currencies of the United Kingdom and Italy and about 14 percent against currencies of France, the Netherlands, Belgium, and Germany. Overseas demand for our products should be somewhat stimulated with these declines and the fairly significant declines in the dollar price of our agricultural commodities that have taken place since November 1974.

The dollar's recent decline wasn't uniform, however. Since August, there was no change with regard to the currencies of Taiwan, Mexico, and Venezuela; and very little change with regard to the currencies of Spain, Canada, and until the end of January, Japan. Taking all of our major farm export markets together, the dollar's value declined an average of 5 percent.

Major reasons for the declining dollar have been a steeper fall in U.S. interest rates than those in Europe, discouraging developments in the U.S. economy, and a continuing balance of trade surplus in Germany. When the dollar falls against the German mark, it must also fall against the Dutch guilder, the Danish kroner, the Swedish kronor, and the Belgian franc since all of these currencies have fairly fixed rates with each other.

The dollar was appreciated against the Korean won by 20 percent in December 1974, causing U.S. exports to be more expensive in terms of Korea's currency.



Business Cycle Developments

Perhaps of more consequence than the decline of the dollar, insofar as the future level of our farm exports is concerned, is the economic state of our major foreign markets. In general, slow or negative economic growth is expected during 1975 in these markets, especially during the first half.

Japanese authorities have been forced to maintain a restrictive monetary policy for many months in an effort to break a wage-price spiral and conserve foreign exchange.

Authorities in Germany, always fearful of inflation, also have deployed conservative fiscal and monetary policies—at least until very recently. However, unemployment in January reached a postwar high of 1.2 million. Among most of our major markets, unemployment is way up. Housing construction is down, inventories have accumulated, new orders for industrial goods have fallen, and new automobile sales are in a slump.

Despite all this, there are hopeful signs in some countries for the latter part of 1975. In Japan, February data indicated that inflationary pressures were declining. This development could lessen the extent of wage demands this spring, and this in turn could permit an easier monetary stance.

Germany's economy should be boosted by a tax cut at the start of this year, a marked increase in the money supply in recent weeks, an increase in new orders received by textile mills, and a rise in the number of mortgages promised by credit institutions. A turnaround in the economy of the United States would help Canadian exports to the United States—a fairly significant sector of the Canadian economy. The Dutch took an easier fiscal and monetary policy in the latter part of

1974 and an expansion of the German economy later this year should also assist the Dutch economy.

France, too, has taken some steps—for example, in January the government announced a set of financial measures to aid the building sector. However, France is under balance-of-payments pressures to continue a somewhat tight demand-management policy.

Korea, a big market for U.S. farm products, probably will also experience an upturn in the second half. Korea's export-oriented economy would be boosted by a pickup in orders from Japan and the United States as their economies recover. Like France and many other nations, Korea must be careful not to let its economy rebound so quickly that is uses up too much of its foreign exchange earnings and reserves or generates too much foreign debt. Korea has already borrowed about $120 million from the International Monetary Fund's oil facility.

Austerity Measures

Italy and the United Kingdom probably face the most serious economic problems. Italy was forced to undertake various fiscal austerity measures during 1974 and even then consumer prices rose 19 percent and industrial production declined by 9 percent. One government agency has forecast that national income and private consumption will decline by 2.5 percent in 1975, and that investments may decline by a tenth. Italy has borrowed heavily in international monetary markets.

In the United Kingdom, consumer prices increased about a fifth in 1974, even though private consumption in real terms was practically unchanged from 1973. Furthermore, the Department of Industry announced in January this year that manufacturing investment can be expected to fall 7-10 percent in 1975 and even further in 1976. Demand will be supported, however, by increased government spending and by an increase in food subsidies. Furthermore, a large amount of foreign exchange earned by oil exporters has been invested in the United Kingdom. Thus, this country has not experienced the shortage of foreign exchange that might have been expected from its big trade deficit.

USSR Plans for Top Output

Soviet gross agricultural output in 1974 failed by some 3 to 4 percent to maintain the record achieved in 1973.

Increased livestock product output in 1974 did much to offset smaller crop production. Weather was not as favorable for agriculture as during the 1973 growing season, and crop production fell about one-tenth short of that achieved in 1973. However, livestock raising, particularly in the early part of 1974, benefited from the good feed crops produced in 1973.

USSR has ambitious 1975 goals

Products	1974 actual[1]	1975	
		Original goal	Revised goal
	Million metric tons		
Grain	195.6	214.0	215.7
Cotton, raw	8.4	7.2	7.7
Sugarbeets	76.4	92.4	94.0
Sunflowerseed	6.8	7.4	7.4
Potatoes	80.7	111.2	109.8
Vegetables	23.1	27.2	27.4
Meat, slaughterweight	14.5	16.0	15.3
Milk	91.8	100.2	94.8
	Billion eggs		
Eggs	55.0	52.7	55.8
	1,000 tons		
Wool	461.0	500.0	472.0

[1] Some preliminary data revised to conform to 1974 annual plan fulfillment report data.

Source: Ekonomika Selskovo Khozyaystva, No. 2, 1975, p. 5

Ambitions in 1975

The Soviets plan for a resumption of growth in agricultural production in 1975, the final year of the 1971-75 five-year plan (FYP). Planned gross agricultural output in 1975 is targeted 11 percent above the 1974 level and 7 percent over the 1973 record.

Attainment of such a level in 1975 would require much better than normal weather. Crop production under normal weather conditions would exceed 1974 levels but probably fall short of 1973 performance. Gains for 1975 in livestock production are likely to be modest because of the rather tight feed situation.

The 1975 grain output target of 215.7 million metric tons is based on an area of 130 million hectares and a grain yield of 16.6 quintals per hectare. The grain target for 1974 was 205.6 million tons. In fact, 195.6 million tons were produced in 1974 from 127.2 million hectares.

Under normal weather conditions, a 1975 grain harvest roughly 5 million tons less than this target seems more likely, mainly because development in recent years suggests that the 1975 harvested grain area will be several million hectares less than planned. Nevertheless, a grain crop of about 210 million tons would roughly equal estimated Soviet grain requirements during 1975/76.

The cotton output plan for 7.7 million tons (unginned) in 1975 is 400,000 tons more than planned for 1974 but 700,000 tons less than the amount produced in 1974. During 1970-74, cotton production exceeded planned amounts by an average of 870,000 tons annually and is expected to exceed planned output in 1975.

Continued on page 12.

USSR, continued from page 11.

The Soviets have been very successful in increasing cotton production, with the 1974 crop over 40 percent larger than those in the late 1960's. A cutback in cotton in the current rotation is intended in order to facilitate an expansion of alfalfa and other forage crops but this may be offset by cotton planted in newly irrigated land.

The performance of the animal husbandry sector during 1974 compared very favorably with the year before and some further gain is expected in 1975. Increase in output of livestock and poultry products during 1974 ranged from 4 percent for milk to about 7 percent for meat and eggs. The revised goals, however, seem possible if pasture and crop conditions are at least average during 1975.

The reduced goals seem to represent a more realistic expectation of performance from current livestock herds and feed supplies, rather than an intentional pullback from the livestock program. Cattle and hog numbers on January 1, 1975, were both 3 percent larger than a year earlier and sheep and goat flocks 2 percent larger. Poultry numbers probably increased more than 5 percent during 1974. However, the feed supply per animal unit on collective and state farms during 1974/75 reportedly is down almost a tenth from the 1973/74 record.

Livestock factories

New livestock complexes are becoming increasingly important. In 1975, large hog complexes are to be completed for 1.4 million head, which would bring total 1971-75 additions to 3.6 million head. Also, large integrated poultry operations for 7.7 million layers and 20.6 million broilers are to be put into operation, oringing total 1971-75 expansion to 41.4 million layers and 105.4 million broilers. Nevertheless, the original FYP goals for construction of such facilities were only about 60 percent fulfilled for hog complexes and 55 percent for broiler iperations.

Mixed feed production is being expanded rapidly as a complement to the livestock complexes. Output in 1975 is planned at 37.4 million tons, up from 34.4 million tons in 1974 and 24 million in 1970.

Massive Investment

Capital investment in agriculture for 1975 is planned to total 31 billion rubles. Annual increases in capital investment in Soviet agriculture have been running close to 10 percent in recent years and agriculture has been receiving a little over a fourth of the total amount of capital invested recently in the Soviet economy.

Land reclamation accounts for about a third of capital invested by the state. Plans for 1975 include 985,000 hectares of newly irrigated land and about a million hectares of newly drained land. Accomplishments during 1974 in land reclamation were of similar magnitudes.

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